

BILL # HB 2840

TITLE: health care; high risk program

SPONSOR: Adams

STATUS: As Amended by House GOV

PREPARED BY: Jenna Goad

FISCAL ANALYSIS

Description

The bill establishes the new Healthcare Group High Risk Program on June 30, 2009 and repeals the existing Healthcare Group (HCG) on June 30, 2010. The bill establishes the new Healthcare Group High Risk Program Fund and stipulates that increases in tax revenue from all types of insurance premiums shall be used to offset the costs of the program. The majority of these revenues are directed to the state General Fund, with the state's Public Safety Personnel Retirement System and local fire districts receiving a portion of the taxes paid on fire insurance premiums. The bill also expands eligibility for the Health Insurance Premium Tax Credit.

Estimated Impact

This bill is estimated to result in a General Fund revenue loss of approximately \$14.1 million in FY 2010, \$27.3 million in FY 2011, and \$41.5 million in FY 2012 associated with directing premium tax increases to the High Risk Program. The bill would hold General Fund revenue at its FY 2009 level and direct any increases in revenue in future years to the High Risk Program. These revenues would otherwise be part of the baseline revenue growth experienced by the state each year.

There may be an additional General Fund revenue loss if insurers increase their claims for Health Insurance Premium Tax Credits. The maximum amount of Health Insurance Premium Tax Credits allowable is \$5.0 million per calendar year, which is unchanged by the bill.

As offsetting savings, the bill would eliminate continuation of the FY 2008 \$8.0 million General Fund subsidy. (As a one-time appropriation, this funding was not continued in the FY 2009 JLBC Baseline.) There could be additional offsetting cost savings in the Arizona Health Care Cost Containment System (AHCCCS) budget if the bill results in individuals purchasing private health insurance coverage through the Healthcare Group High Risk Program rather than entering the AHCCCS program. The amount of these potential savings cannot be determined in advance.

AHCCCS has not provided an estimate of the fiscal impact of the bill.

Analysis

HCG offers health insurance to small businesses with less than 50 employees and to sole practitioners. Coverage is offered through community rated plans and an applicant cannot be denied coverage due to a medical condition. Employers may pay part of the premium or offer the program directly to their employees with no additional cost to the business. In the spring of 2007 it was announced that HCG was running an annual deficit. The FY 2008 budget provided a one-time subsidy of \$8.0 million from the General Fund for the HCG program. In addition to providing a General Fund subsidy, the Legislature also passed a number of reforms to the HCG program.

Insurers are required to pay the state a tax on net premiums from the preceding calendar year. These premium taxes are currently deposited into the General Fund and other funds. The bill directs any increases above the calendar 2008 obligations to be deposited into the Healthcare Group High Risk Program Fund beginning on March 1, 2010. For calendar year 2008 tax obligations, which would be paid during FY 2009, the Department of Insurance (DOI) estimates premium tax collections to the General Fund to be \$437.9 million. For calendar year 2009, these revenues are estimated to increase to \$452.0 million. This would result in a General Fund revenue loss of \$14.1 million dollars in FY 2010. This revenue loss is estimated by DOI to further increase to \$27.3 million in FY 2011 and \$41.5 million in FY 2012. The bill stipulates that risk pool premiums must be raised if expenses are estimated to be higher than program revenue.

The bill also expands eligibility for the Health Insurance Premium Tax Credit. Currently, insurers are eligible for a credit if they provide health insurance to individuals up to 250% of the federal poverty line and small businesses with between 2 and

25 employees. The bill expands the eligibility for this tax credit beginning on January 1, 2010 to include insurers that provide coverage to individuals and small groups of up to 50 employees if they were enrolled in the current HCG program as of that date. The bill also requires AHCCCS to promote the Health Insurance Premium Tax Credit to individuals who do not qualify for services provided by AHCCCS. The administrative costs to AHCCCS associated with promoting the credit cannot be determined without information from the agency.

This provision could result in a General Fund revenue loss if insurers increase their claims for the Health Insurance Premium Tax Credits. Under current law, these credits are limited to \$5.0 million per calendar year and are awarded on a first come first served basis. From September 2006 through May 2007, \$1.75 million in credits were claimed. DOI estimates that insurers will claim \$3.0 million in credits for calendar year 2007 and \$5.0 million for calendar 2008. If actual credits claimed under the current eligibility guidelines are lower than the \$5.0 million maximum, expanding eligibility for the credit could result in a General Fund revenue loss beginning in FY 2011.

While only small businesses are eligible for the current HCG program, the Healthcare Group High Risk Program would be open to both small businesses and individuals who have been denied health care insurance for health reasons. There could be offsetting cost savings in the AHCCCS budget if the bill results in individuals purchasing private health insurance coverage through the Healthcare Group High Risk Program rather than entering the AHCCCS program.

The bill also extends the provisions of Laws 2007, Chapter 263, the FY 2008 Health and Welfare Budget Reconciliation Bill, relating to the HCG enrollment freeze and imposing a default reimbursement rate of 114% of AHCCCS rates until June 30, 2010. A recent audit by DOI estimates that HCG will end FY 2008, during which these provisions will have been in place, with a shortfall of \$8.6 million. The cost of operating HCG under these restrictions until the bill repeals the program on June 30, 2010 cannot be determined without information from the agency.

Local Government Impact

None

3/17/08